

DOCUMENT RESUME

ED 419 983

CE 076 694

TITLE The Multifaceted Returns to Education.
INSTITUTION National Alliance of Business, Inc., Washington, DC.
PUB DATE 1998-06-00
NOTE 13p.
PUB TYPE Collected Works - Serials (022) -- Numerical/Quantitative Data (110)
JOURNAL CIT Workforce Economic Trends; Jun 1998
EDRS PRICE EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Adults; College Graduates; Dropouts; *Education Work Relationship; *Educational Attainment; *Educational Benefits; *Educational Status Comparison; Employment Potential; High School Graduates; Higher Education; Rewards; Socioeconomic Status; *Wages

ABSTRACT

Trends in economics in the United States show a strong positive relationship between educational attainment and productivity growth. The earnings differential between those with more education and those with less education reflects the fact that education raises productivity rather than the fact that more productive students go on to pursue more education. Some trends include the following: (1) labor force participation rises with educational attainment; (2) more education translates into higher earnings; (3) the earnings gap has grown larger over time; (4) higher education means lower unemployment, more stable employment, and faster reemployment when dislocated--but education is no guarantee against being dislocated; (5) more education increases the chances of being covered by a pension and of having health insurance coverage; (6) more education translates into receiving more training; (7) lower levels of educational attainment translate into higher poverty rates and more dependence on public assistance; (8) those with higher education use technology on the job, engage in less criminal activity, are more active civic participants, volunteer in more charitable activities, have fewer children and better health; (9) with a more educated work force, business productivity increases and regional economies grow; and (10) new jobs in the future will require more education. (KC)

* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *

JUNE 1998

NATIONAL  ALLIANCE
OF BUSINESS

WORKFORCE ECONOMICS TRENDS

THE BUSINESS VOICE ON WORKFORCE DEVELOPMENT

The Multifaceted Returns to Education

In the new knowledge based economy, lifelong investments in education and training will become a way of life for individuals and companies and a key to increasing our collective standard of living. In the present economic environment, marked by sweeping technological advances and fast-paced global economic change, investing in education and training over an entire lifetime is now a fact of life. Lifelong learning will become the norm rather than the exception.

Human capital is our most critical asset. Human capital -- the knowledge, skills, and abilities of people -- will be the common denominator determining individual, business, and national economic success. The strong positive relationship between education attainment and productivity growth -- at the macro and micro level -- is one of the most consistent findings in economics literature.

While we focus in this issue of *Workforce Trends* on the effects of learning in more formal settings such as schools, it is also clear that learning occurs in many non-formal settings: at home, at work, and in the community. At the same time, some argue that schooling may not do much to improve productivity and argue that degrees and education attainment convey information about the underlying abilities, persistence, and other individual traits that act as a screening mechanism rather than investments in human capital. Most studies, however, have concluded that the earnings differential between those with more education and those with less education reflects the fact that education raises productivity rather than the fact that more productive students go on to pursue more education.

It is becoming increasingly difficult for those without higher education to earn enough to support a middle class standard of living. Labor demand has shifted in favor of more highly skilled and more highly educated workers. The evidence for this shift is clear. While the portion of the labor force with a college degree increased between 1980 and 1996, the same period saw an even more rapid rise in the relative wages of college graduates. The growing gap occurred despite the increase in the supply of more educated individuals within the labor force. Education is also important in terms of its contributions to social cohesion and to our collective social capital that is increasingly important to economic growth and development.

Education represents the foundation on which individual, company, and economic growth and development will depend. Increasing educational attainment is an important step up the ladder of economic and social opportunity for everyone.

Increased investments in education and training boost business productivity and the bottom-line. Individuals with more education not only earn more and have improved employment prospects, but they are less likely to receive public assistance, are generally healthier, are more likely to vote and participate in civic affairs and less likely to be involved in criminal activity. Ultimately, national, state, and regional economic growth will also depend on the knowledge and skills of the workforce.

Workforce Economics Trends is a compilation prepared by the Alliance of research profiling our nation's current and future workforce. The information --- statistics, facts and demographics --- highlighted is intended to help advance efforts to build a quality workforce.

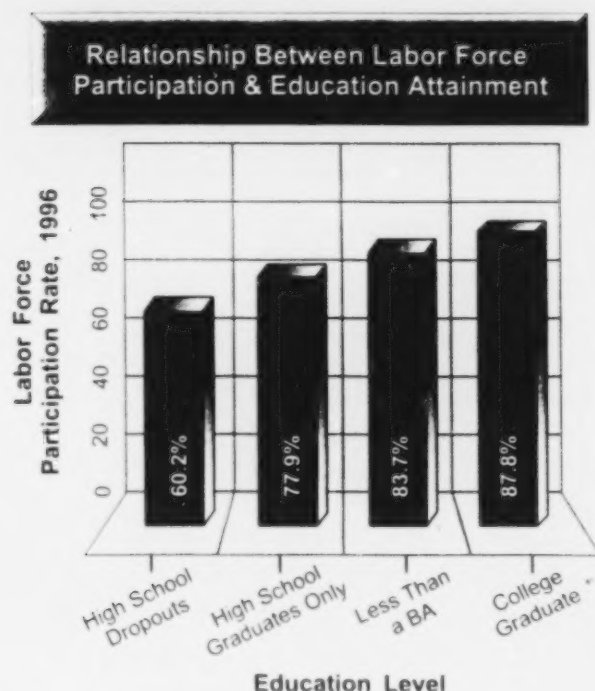
Alliance members receive *Workforce Economics Trends* six times per year, bimonthly. Further information and analysis about the state of the American workforce are provided through the Alliance's newsletters --- *Work America*, *Workforce Economics* and our faxed bulletin *Legislative Update*.

National Alliance of Business
1201 New York Avenue, NW Washington DC 20005
800-787-2848 Fax 202-289-1303 TDD 202-289-2977
email: info@nab.com Website: www.nab.com

PERMISSION TO REPRODUCE THIS
DOCUMENT HAS BEEN GRANTED BY
MICROFILM EDWARDS LIBRARY

K Jones

Labor Force Participation Rises With Educational Attainment...

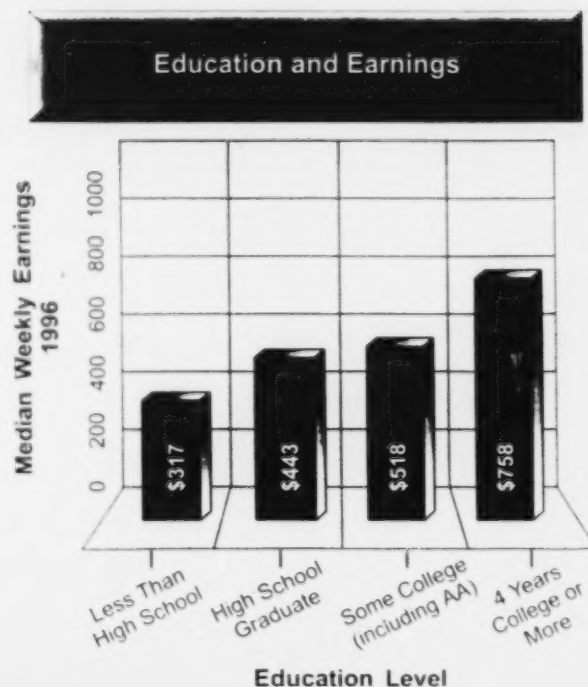


Labor force activity rises with educational attainment. In 1996, six in ten persons with less than a high school diploma participated in the labor market, while nearly eight in ten high school graduates participated in the labor market.

Source: U.S. Bureau of Labor Statistics

More Education Translates Into Higher Earnings...

Higher levels of education translate into higher earnings. Median weekly earnings for those persons with a B.A. or higher are more than double the median weekly earnings of high school dropouts. Indeed, a high school graduate earns nearly 40% more than a high school dropout in 1996.

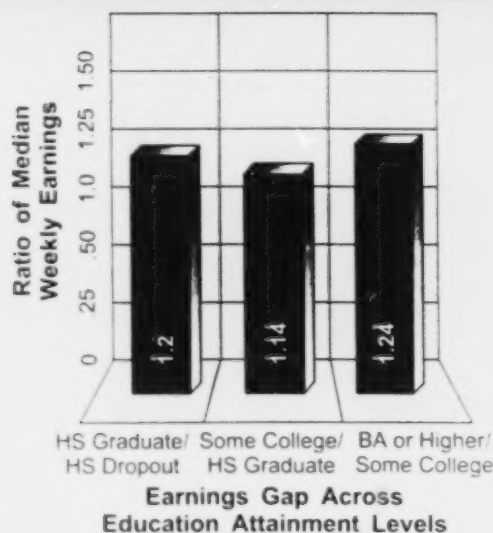


Source: 1997 Report on the American Workforce

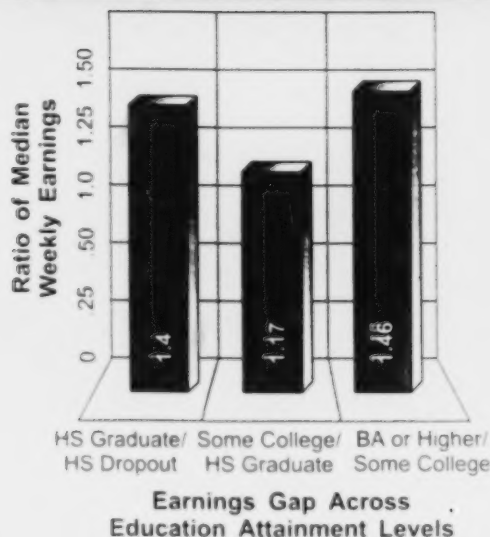
The Earnings Gap Has Grown Larger Over Time...

Over the past 16 years, the earnings gap between persons with more education and those with less education has grown. In 1980, for example, a high school graduate earned 20% more than a high school dropout. By 1996, the earnings gap between a high school graduate and a high school dropout doubled -- growing to 40%.

Earnings Gap In 1980



Earnings Gap In 1996

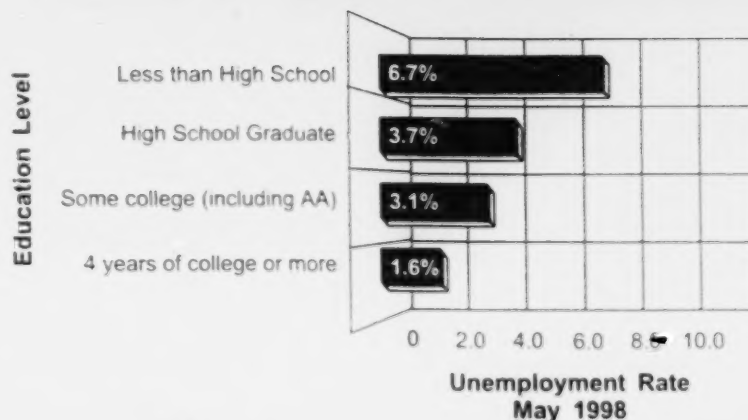


Source: 1997 Report on the American Workforce

Higher Education Means Lower Unemployment...

As the level of education rises, unemployment rates fall. The unemployment rate for high school dropouts hovers near 7% -- more than twice as high as the unemployment rate for individuals with some college or more.

As Level of Education Rises, Unemployment Falls

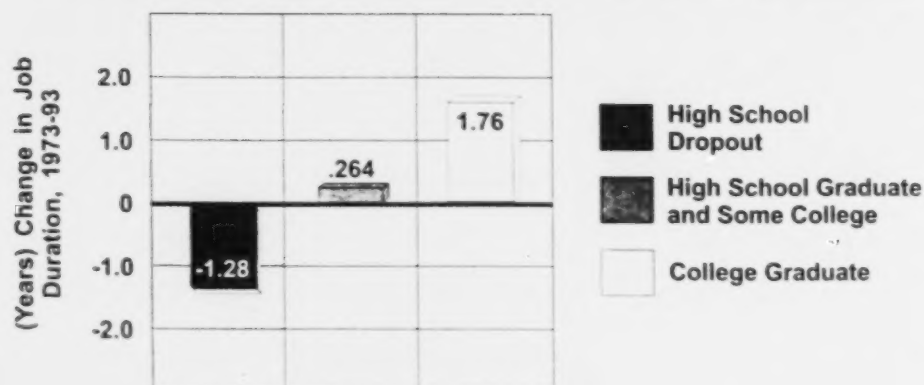


Source: U.S. Bureau of Labor

More Stable Employment...

Job duration -- the length of time a worker stays with one employer-- has declined over the last 20 years for high school dropouts, while tenure for workers with either some college or 4 or more years of college rose over the same period.

Change in Median Tenure By Education

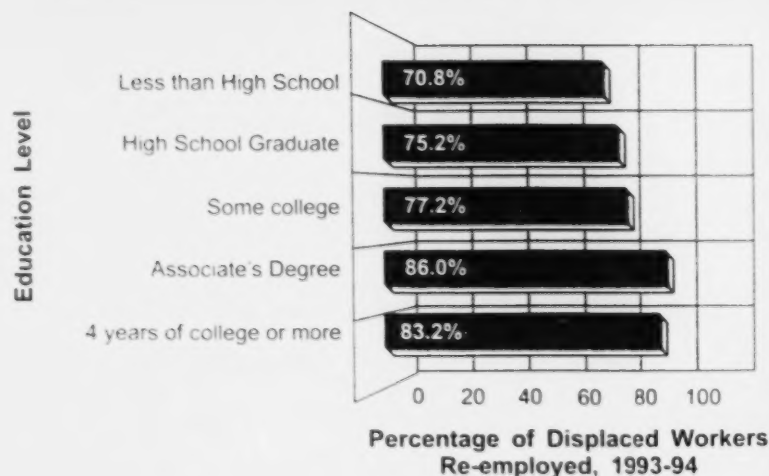


Source: Henry S. Farber, "Are Lifetime Jobs Disappearing?" National Bureau of Economic Research, W.P. # 5014

Faster Re-Employment When Dislocated...

Several studies have found that workers with more education are reemployed faster and have smaller wage losses compared to workers with less education. Seventy-one percent of dislocated workers with less than a high school diploma were reemployed, while seventy-five percent of dislocated workers with a high school diploma were reemployed, while seventy-five percent of dislocated workers with a high school diploma were reemployed. College graduates -- both those with a B.A. or an A.A. -- had re-employment rates over 13 percentage points higher compared to high school dropouts.

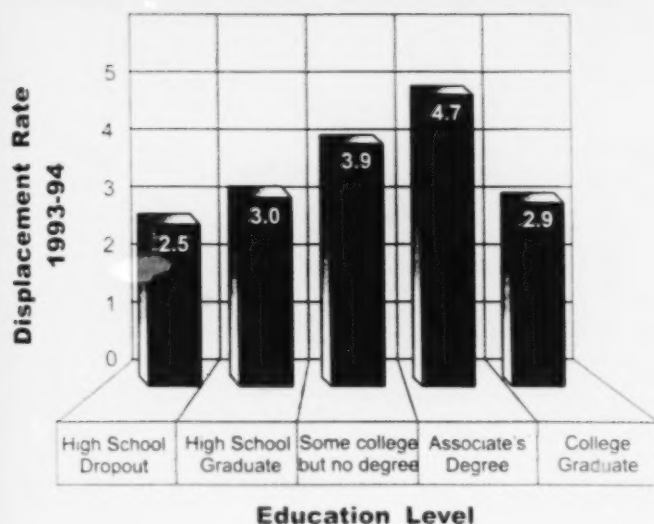
Faster Re-employment When Dislocated



Source: Steven Hipple, "Worker Displacement in an Expanding Economy," *Monthly Labor Review*, December 1997

But, Education is No Guarantee Against Being Displaced...

Displacement Rate By Education Level



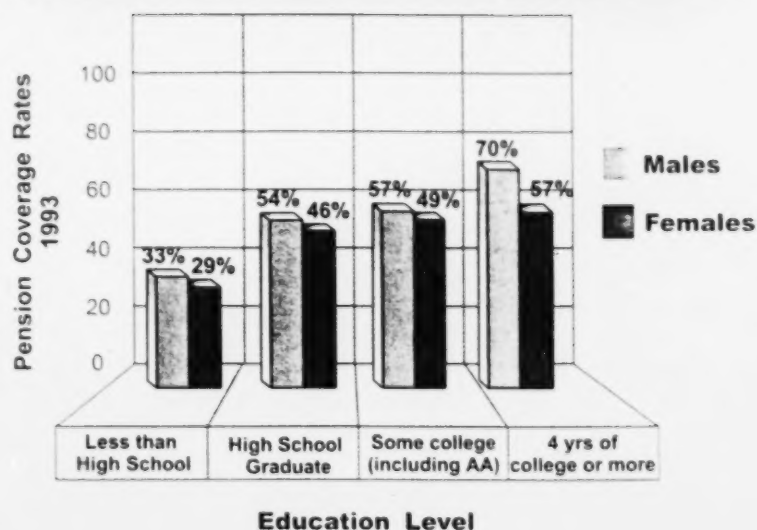
There is no apparent relationship between education and the chances of being displaced. According to data from the most recent displaced worker survey, the displacement rate for high school dropouts was actually lower than the displacement rate for college graduates.

Source: Steven Hipple, "Worker Displacement in an Expanding Economy," *Monthly Labor Review*, December 1997

More Education Increases Chances of Being Covered by a Pension...

The likelihood of being covered by a pension is strongly related to education -- for both men and women. Less than one in three high school dropouts is covered by a pension, while nearly seven in ten workers with a Bachelor's Degree or higher are covered by a pension.

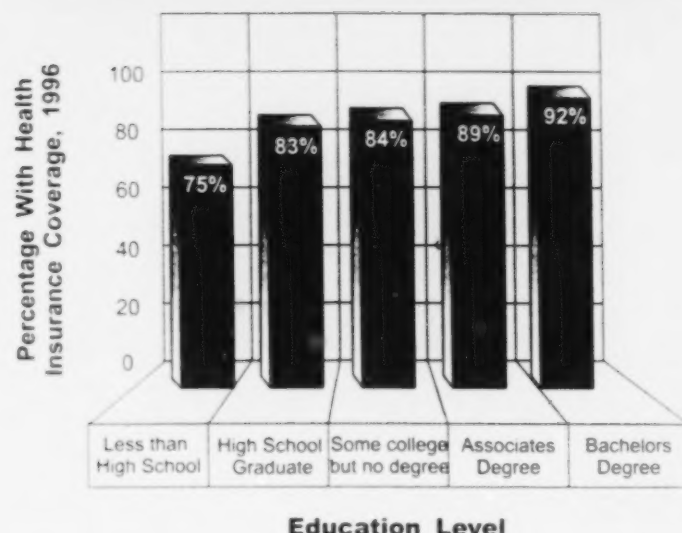
Increased Pension Coverage



Source: William Even & David Macpherson "Why has the Loss in Pension Coverage Accelerated Among Less Educated Workers?" Paper presented at the 1995 Meeting of the American Economics Association.

Increased Chances of Health Insurance Coverage...

Improved Health Insurance Coverage



Just as we saw in the data on pension coverage, the likelihood of having health insurance is positively associated with education. Twenty-five percent of high school dropouts do not have health insurance coverage, while less than 8% of college graduates are not covered by health insurance.

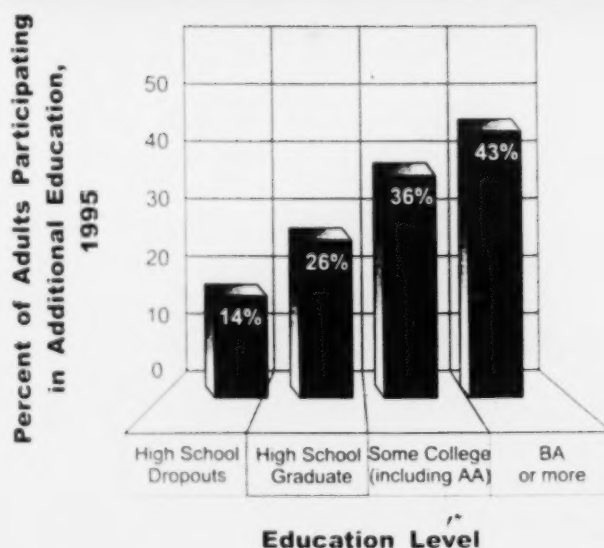
Source: U.S. Census Bureau

More Education Translates Into Receiving More Training...

Education is strongly related to participation in training. According to data from the National Household Education Survey, college graduates reported participating in additional educational activities at nearly three times the rate of high school dropouts. And high school graduates were nearly twice as likely to participate in additional educational activities compared to high school dropouts.

Source: National Center for Education Statistics

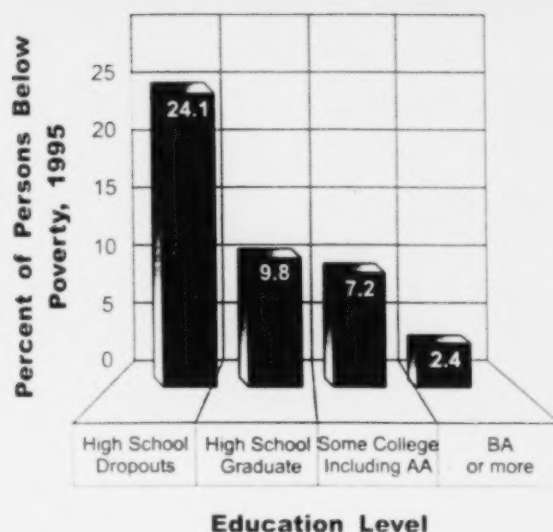
More Education Means More Investment In Training



Lower Levels of Educational Attainment Translate Into Higher Poverty Rates...

There is a strong negative relationship between educational attainment and poverty. Poverty rates are over 10 times higher for high school dropouts compared to college graduates.

The Relationship Between Education Level and Poverty Rates



Source: U.S. Census Bureau

Less Dependence on Public Assistance...

High school dropouts were more than twice as likely to receive income from Aid to Families with Dependent Children (AFDC) as high school graduates. Persons with 1 to 3 years of college were 3 times less likely to receive income from AFDC compared to high school dropouts and persons with 4 or more years of college were 36 times less likely to receive income from AFDC compared to high school dropouts.

High School Dropouts



High School Graduates



1-3 Years of College



4 or more Years of College

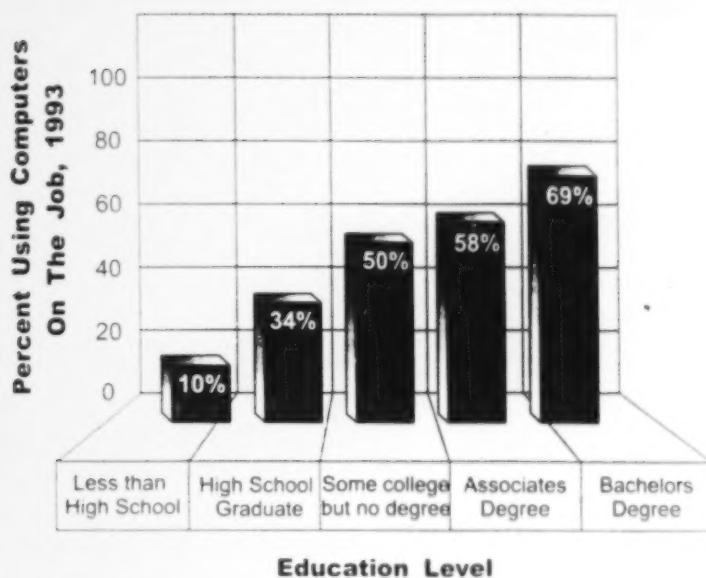


Percent of Persons Receiving AFDC By Education Level

Source: U.S. Census Bureau

Using Technology On The Job...

More Likely to Use Technology on the Job



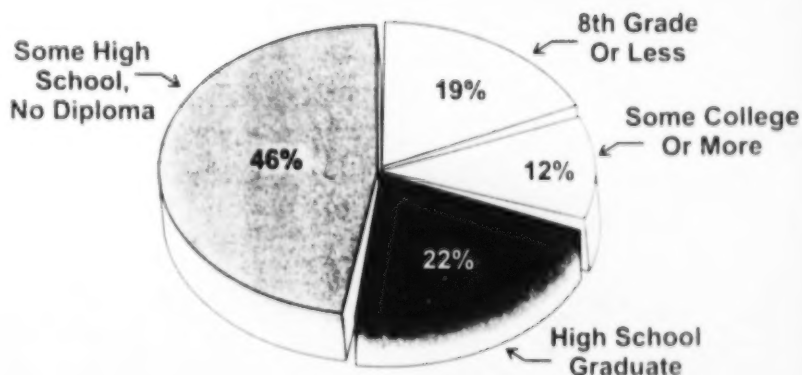
Persons with a bachelor's degree or higher are nearly seven times more likely to use technology on the job compared to high school dropouts. Persons with the same level of education, all others being equal, that use technology on the job earn more than persons that do not use technology on the job.

Source: U.S. Census Bureau and Alan Krueger, "How Computers Have Changed the Wage Structure," *Quarterly Journal of Economics*, February 1993.

Less Criminal Activity...

Criminal activity is negatively correlated with education. Two-thirds of all prison inmates are high school dropouts. High school dropouts are nearly three times as likely to be in prison compared to high school graduates. Moreover, persons with education beyond high school are over 5 times less likely to be in prison compared to high school dropouts.

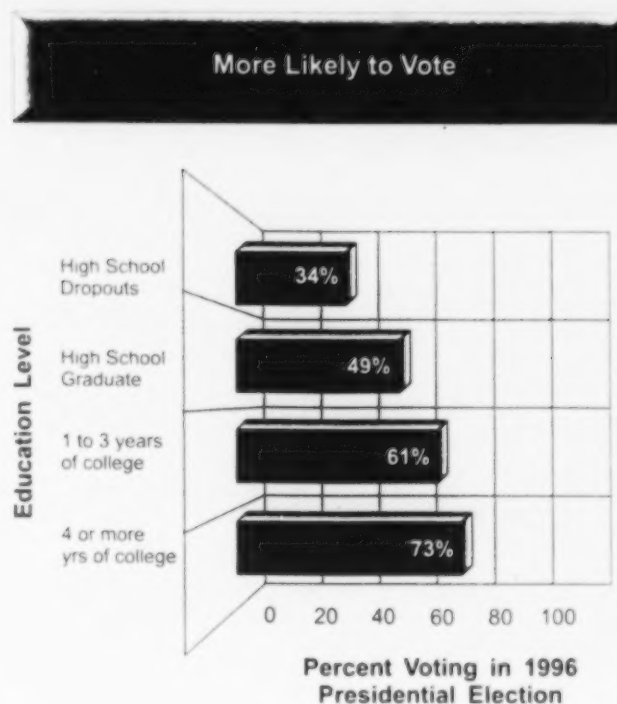
Prison Inmates by Education Level, 1991



Source: U.S. Bureau of Justice Statistics

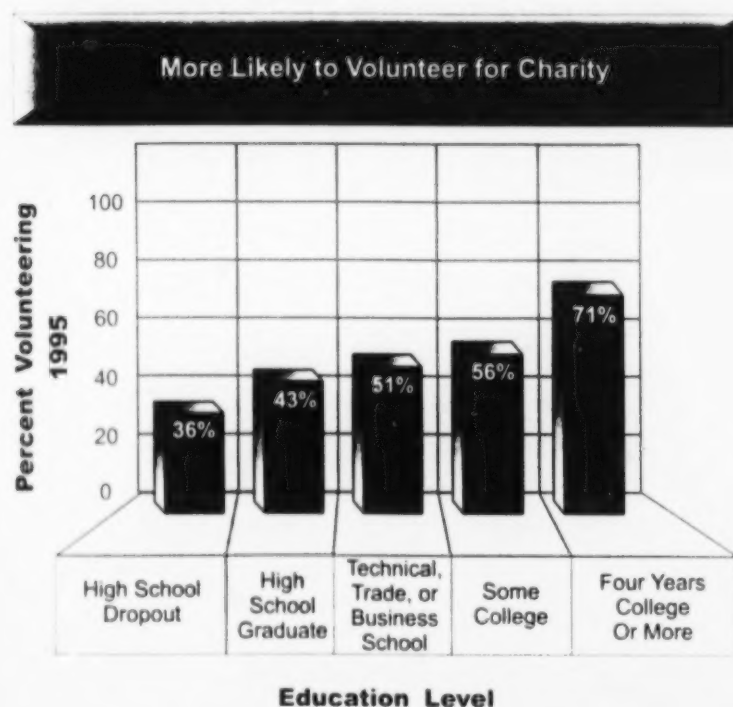
More active civic participation...

High school graduates were nearly twice as likely to cast a vote in the 1996 Presidential election compared to high school dropouts. Nearly 50% of all high school graduates voted in the 1996 election compared to 34% of all high school dropouts. Six out of ten persons with 1 to 3 years of college voted while just over 7 out of ten of all persons with 4 or more years of college cast a ballot in the 1996 election.



Source: U.S. Census Bureau.

More participation in charitable activities...

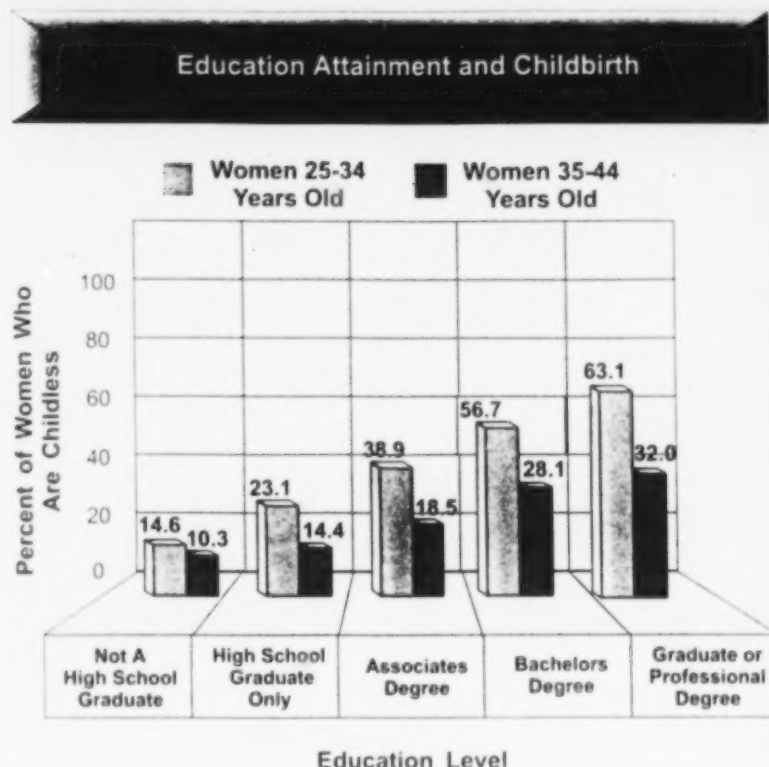


Just over 1 in 4 high school dropouts volunteered for various community and charitable organizations compared to four out of ten high school graduates. Over 50% of persons with 1 to 3 years of college participated in some volunteer work while 70% of those with 4 or more years of college participated in voluntary activities.

Source: Independent Sector

Education Attainment And Childbirth...

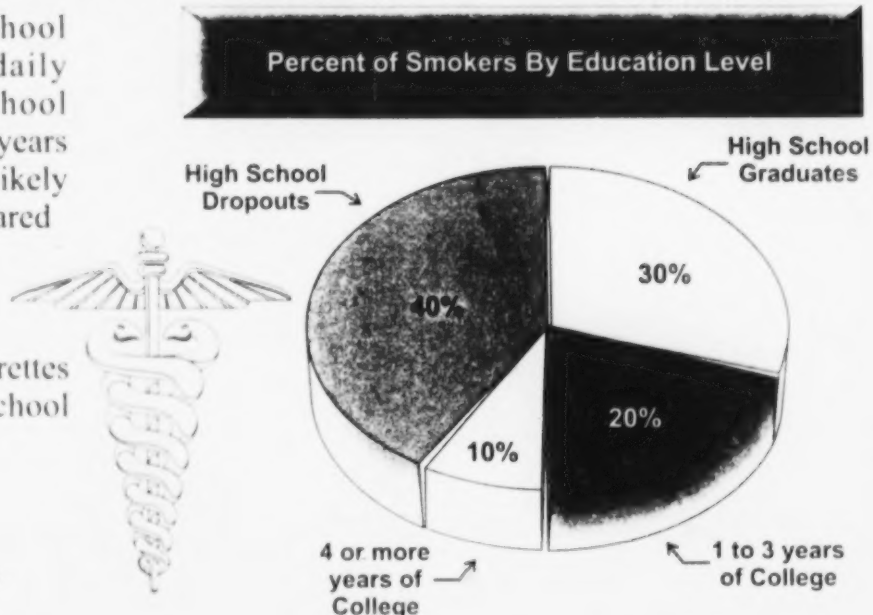
There appears to be a negative relationship between childbirth and educational attainment. In general, women that are not high school graduates are more likely to have children than are women with a B.A. degree or higher. The results are most striking for younger women, suggesting that seeking an education may delay childbirth.



Source: U.S. Census Bureau

More Education and Better Health...

Nearly 4 in 10 high school dropouts smoke cigarettes daily compared to 3 in 10 high school graduates. Persons with 1 to 3 years of college were nearly half as likely to smoke cigarettes daily compared to high school dropouts while persons with 4 or more years of college were 3 times less likely to smoke cigarettes daily compared to high school dropouts.

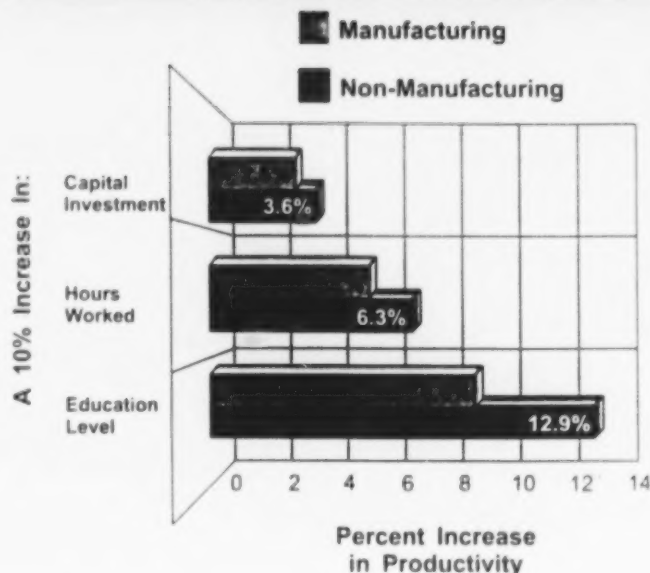


Source: National Center for Education Statistics

Business Productivity Increases...

Company productivity increases based on the educational level of its workforce. A 10% increase in the average education level of a company's workforce (approximately one year of additional education) increases productivity by 8.6% in the manufacturing sector and by 12.9% in the non-manufacturing sector.

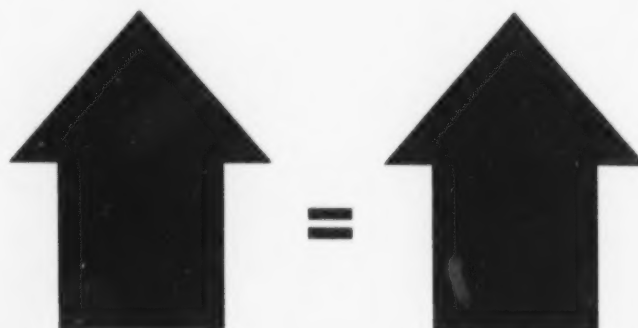
Company Productivity Increases
Based on Education



Source: Lisa M. Lynch and Sandra E. Black, "Beyond The Incidence of Training: Evidence From A National Employers Survey" National Bureau of Economic Research WP # 5231

Regional Economies Grow...

Regional economic growth is related to workforce development investments. A recent study found a positive correlation between a local community stock of human capital and its income growth. Another study found that increasing the educational level of a metropolitan area by one year increases productivity by 2.8 percent.

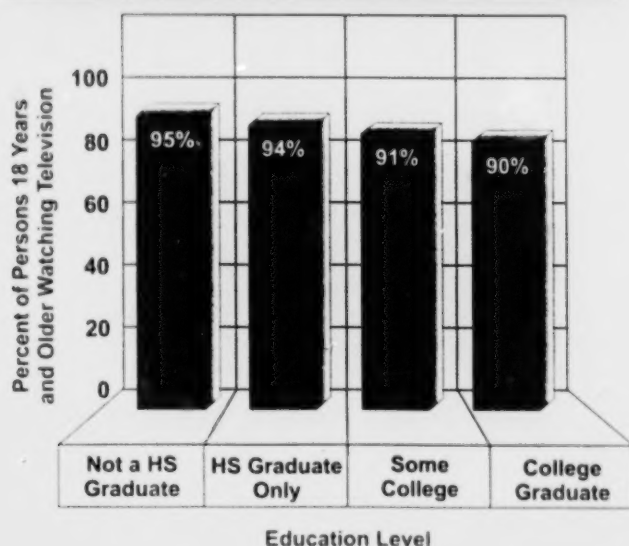


Source: Edward Glaeser, "Cities, Information, and Economic Growth," *Cityscape* 1994 and James Rauch, "Productivity Gains from Geographic Concentration of Human Capital," *Journal of Urban Economics*, 1993.

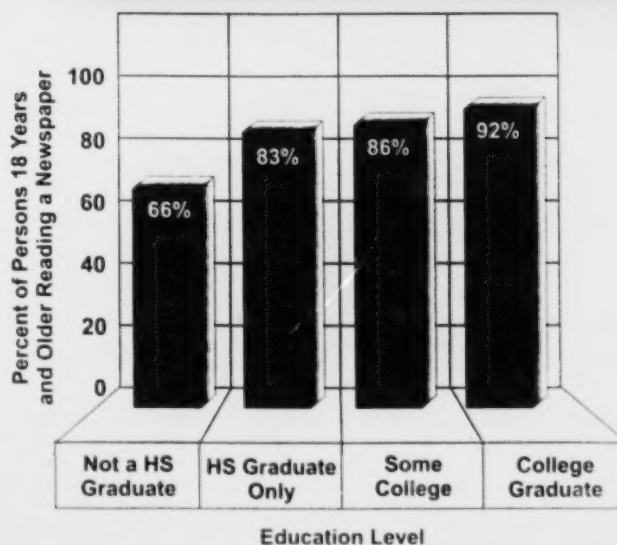
The Relationship Between Education and Television Viewing and Newspaper Reading...

There is a negative relationship between educational attainment and television viewing. High school dropouts are more likely to report they watch television compared to persons with more education. On the other hand, persons with more education are more likely to read a newspaper compared to persons with less education.

Education and Television Viewing



Newspaper Reading and Educational Attainment

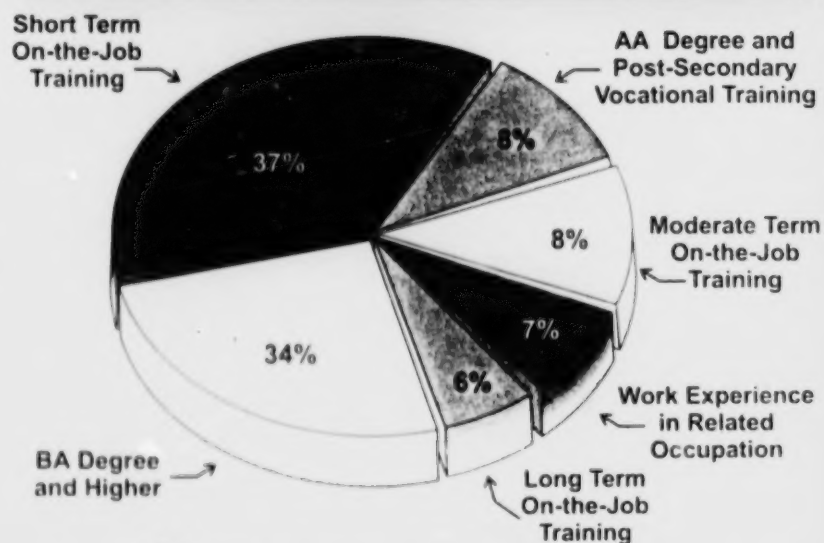


Source: U.S. Census Bureau

New Jobs in the Future Will Require More Education...

Jobs requiring more education will contribute disproportionately to job growth in the future. While jobs requiring a B.A. and above represent one in five jobs in 1996, nearly one in three new jobs created between 1996 and 2001 will require a B.A. or more.

Share of New Job Growth by Education Required, 1996-2001



Source: U.S. Bureau of Labor Statistics